

# City of Detroit


## CITY COUNCIL

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ANNE MARIE LANGAN  
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: July 14, 2010

RE: **Amended resolution authorizing the issuance and sale of not to exceed \$100,000,000 Distributable State Aid Second Lien Bonds (Unlimited Tax General Obligation) Series 2010 (A) and authorizing a second supplement to the outstanding Master Debt Retirement Trust Indenture to secure repayment of the bonds (Recommend Approval)**

### Amended Resolution

Yesterday, your Honorable Body received an amended resolution authorizing the sale up to \$100 million in distributable state aid (state revenue sharing) second lien bonds, to be sold as unlimited tax general obligation bonds (paid for from the property tax debt mileage based on remaining voter approved bond authorizations) for the purpose of financing public capital improvement projects, primarily for the acquisition of the old MGM Grand Casino temporary casino site and construction of a new public safety headquarters on said site.

Based on questions raised by your Honorable Body and the Fiscal Analysis Division on the initial bond resolution, the Administration accomplishes the following via this amended resolution:

1. Any language referencing the ability to enter into different instruments including interest rate exchange swap, hedge or similar arrangements related to the bonds was struck.
2. Pertinent financial information in Section 301 (b) of the bond resolution, which is discussed in more detail in the following section, was provided.

### Use of Bond Proceeds

The third whereas in the bond resolution indicates there is \$161.1 million in remaining voter approved bond authorization for Public Safety facility improvements; \$36.2 million remaining for Public Lighting facility improvements;

\$30.8 million remaining for Transportation facility improvements; and a combined \$122.4 million remaining for Recreation, Zoo, Cultural facilities, Museum and Library facilities.

From the \$100 million in bond proceeds, according to Section 301 (b) of the bond resolution (page 7), the Administration plans to use \$70 million for Public Safety facilities (\$60 million for the new public safety headquarters and \$10 million for Health facilities); \$5 million for Public Lighting improvements; and \$14 million for Recreation, Zoo, Cultural facilities, Museum and Library facilities; and \$1 million Transportation facility improvements against the remaining bond authorizations previously described. This adds up to \$90 million. The remaining \$10 million would be used for bond issuance cost and acquisition cost associated with the purchase of the old MGM Grand Casino temporary casino site.

Although unrelated to the public safety headquarters project, it is interesting that only \$5 million would be spent on Public Lighting facilities when the department needs at least \$10 million to tie into the national grid, and another \$15 million to upgrade the power generators for back up purposes. It is also interesting that \$10 million would be spent on Health facilities when the discussion of possibly consolidating public health care services between the City and Wayne County is incomplete.

### **Marketability of the Bonds**

Since there has been a three-year moratorium on selling general obligation bonds because of the City's below investment grade bond ratings, the Administration wants to take the opportunity to fund some of the outstanding capital improvement projects mentioned previously.

The Administration deems it necessary to pledge state revenue sharing dollars to enhance the marketability of the bonds, even though the bonds would be paid from property taxes. As a result, the \$100 million in bonds would be supported by state revenue sharing dollars and backed by the full faith and credit of the City. These bonds would be subordinate to the \$250 million in distributable State aid limited tax general obligation bonds (a/k/a fiscal stabilization bonds) sold in March 2010 to help address the City's accumulated deficit.

Sufficient state revenue sharing dollars would be set-aside in a trust to cover debt service on the bonds. Once property taxes are used to pay the debt service, the state revenue sharing dollars would be released to the general fund. Although sufficient property taxes should be raised through the property tax debt mileage to pay off these bonds, the general fund is restricted somewhat to fund operations on a temporary basis by the pledging of state revenue sharing dollars for these bonds.

The City meets the “additional bonds test” to sell bonds up to \$100 million when pledging state revenue sharing dollars on a subordinated basis. The most recent 12-month collection of state revenue sharing dollars must equal at least 100% of the estimated maximum principal and interest payment on the fiscal stabilization bonds and these proposed bonds, which is \$28 million. The Administration expects to receive \$239 million in state revenue sharing dollars for fiscal year 2009-10, which is 863% of the maximum debt service requirement. Therefore, the City passes the test.

### **Bond Resolution Flexibility**

The \$100 million in bonds would be sold as unlimited tax general obligation bonds, paid from property taxes and supported by a subordinated state revenue sharing pledge, bearing an estimated interest cost of 6.3% on a tax-exempt basis. Council should note that the Administration believes this interest rate is achievable by selling the bonds through the Michigan Finance Authority, which is allowed under the bond resolution. The interest rate would be approximately .25% higher if the City issued the bonds on its own.

However, the bond resolution gives the Finance Director the flexibility to issue the bonds as Build America Bonds (BABs) and/or Recovery Zone Economic Development Bonds (RZEDBs) under the ARRA (stimulus) program. Both types of bonds would be sold on a taxable basis. But the Federal government would lower the interest rate by 35% on the BABs, and 45% on the RZEDBs; thereby reducing the interest rate to 4.1% and 3.47%, respectively, which are lower than estimated tax-exempt rate of 6.3%.

At the present time, the Administration is considering issuing up to \$50.3 million in BABs and \$49.7 million in RZEDBs, which is currently the City’s limit on the RZEDBs. Council should note that the RZEDBs have to be used for public projects located in a “Recovery Zone”. Fortunately, on February 9, 2010, your Honorable Body designated the entire City of Detroit as a “Recovery Zone”.

Another good feature of these stimulus type bonds is that bond issuance cost is not to exceed 2% of the total amount of the bonds issued.

Council should also note that any stimulus type bonds must be issued by December 31, 2010. As a result, it would be advantageous for your Honorable Body to consider approving this amended bond resolution before your summer recess in order to give the Finance Director sufficient time to market the bonds and meet this deadline.

### **Recommendation**

Based on the above analysis, I recommend that Council approve the amended bond resolution authorizing the issuance of up to \$100 million in distributable

State aid unlimited tax general obligation bonds for the purpose of funding certain capital improvement projects, including the acquisition of the old MGM Grand Casino temporary casino site and construction of a new public safety headquarters on said site.

cc: Council Divisions  
Auditor General's Office  
Saul Green, Deputy Mayor  
Norman White, Chief Financial Officer  
Thomas Lijana, Group Executive-Finance  
Pamela Scales, Budget Director  
Kamau Marable, Mayor's Office

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